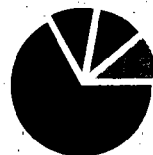


TOWN OF TROPIC
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS



HINTONBURDICK
HINTON BURDICK HALL & SPILKER PLLC
CPAs & ADVISORS

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FINANCIAL SECTION



HINTONBURDICK
HINTON BURDICK HALL & SPILKER PLLC
CPAs & ADVISORS

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
MORRIS J. PEACOCK
PHILLIP S. PEINE
MICHAEL K. SPILKER
MARK E. TICHENOR

**INDEPENDENT AUDITORS' OPINION
ON THE BASIC FINANCIAL STATEMENTS**

The Honorable Mayor and
Town Council
Tropic, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Tropic, Utah, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Tropic's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Tropic, Utah, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 29, 2006, on our consideration of the Town of Tropic's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayor & Town Council

December 29, 2006

Page 2

The Management's Discussion and Analysis on pages 3-8, and the Schedule of Water Impact Fees on page 40, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, PLLC

December 29, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Tropic we offer readers of the Town of Tropic's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net assets) by \$3.2 million at the close of the fiscal year.
- Total net assets (governmental & proprietary funds) increased by \$318,735.
- In the General Fund, expenditures exceeded revenues by \$154,758.
- Total revenues from all sources were \$725 thousand which includes \$325,866 in revenue from the Water & Sewer funds.
- Total long-term liabilities of the Town are \$316,517.
- At the end of the current fiscal year, unrestricted net assets for the Town's governmental and proprietary funds were \$-24,247 and \$273,955 respectively.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the Town as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. (3) Notes to the financial statements.

Reporting the Town as a Whole

The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the Town's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the Town's financial position. The Town's governmental and business type combined assets exceed liabilities by \$1.46 and \$1.74 million as of June 30, 2006 as shown in the following condensed statement of net assets.

Statement of Net Assets

	Governmental activities	Business-type activities
	2006	2006
Current and other assets	\$ (17,947)	\$ 273,954
Noncurrent assets - restricted cash	-	40,085
Capital assets	1,587,026	1,704,988
Total assets	1,569,079	2,019,027
Long-term liabilities outstanding	95,000	226,517
Other liabilities	6,300	44,123
Total liabilities	101,300	270,640
Net assets:		
Invested in capital assets, net of related debt	1,492,026	1,434,347
Restricted	-	40,085
Unrestricted	(24,247)	273,955
Total net assets	\$ 1,467,779	\$ 1,748,387

Governmental Activities

The cost of all Governmental activities this year was \$224,949. Overall governmental revenues totaled \$399,388. Capital and operating grants received from other governmental organizations provided \$202,970 of the governmental activities revenues. Investment and other earnings totaled \$47,304.

The Town's programs include: general government, public safety, streets and highways, and parks and recreation. Total revenues for all governmental activities and the expenditures for each program are presented below.

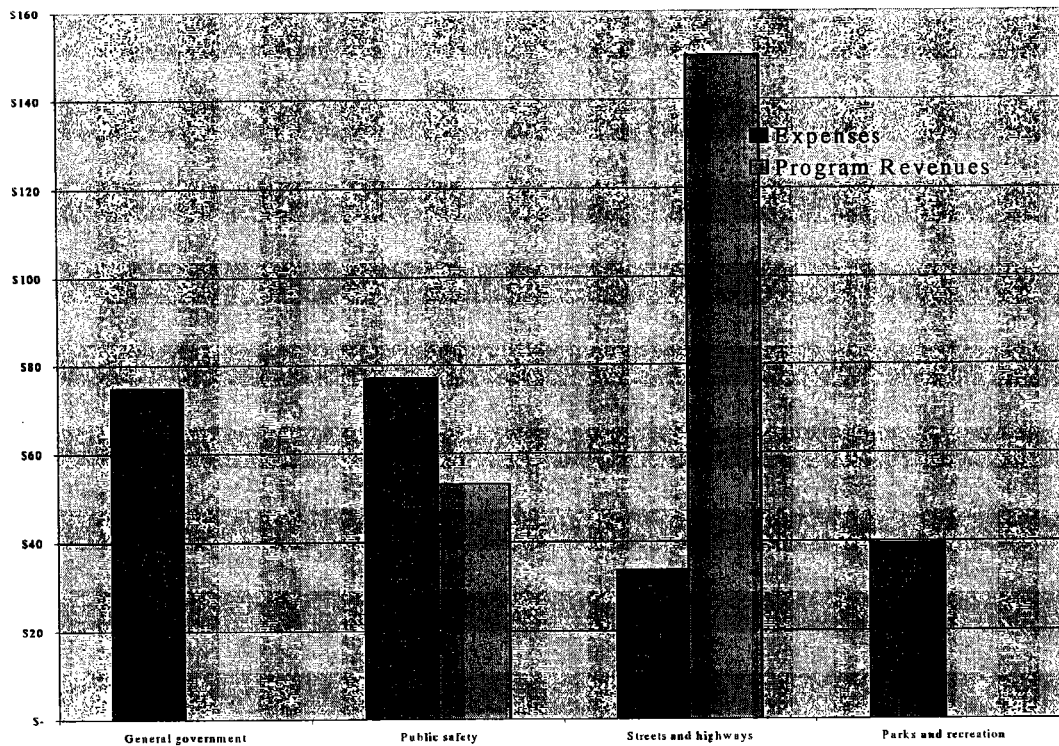
Changes in Net Assets

	Governmental activities	Business-type activities
	2006	2006
Revenues:		
Program revenues:		
Charges for services	\$ -	\$ 175,956
Operating grants and contributions	35,983	-
Capital grants and contributions	166,987	146,533
General revenues:		
Taxes	147,614	-
Licenses, permits, and fees	1,500	-
Other	47,304	3,377
Total revenues	<u>399,388</u>	<u>325,866</u>
Expenses:		
General government	74,852	-
Public safety	77,013	-
Streets and highways	33,669	-
Parks and recreation	39,415	-
Water	-	135,336
Sewer	-	46,234
Total expenses	<u>224,949</u>	<u>181,570</u>
Increase in net assets	174,439	144,296
Net assets, beginning	<u>1,293,340</u>	<u>1,604,091</u>
Net assets, ending	<u>\$ 1,467,779</u>	<u>\$ 1,748,387</u>

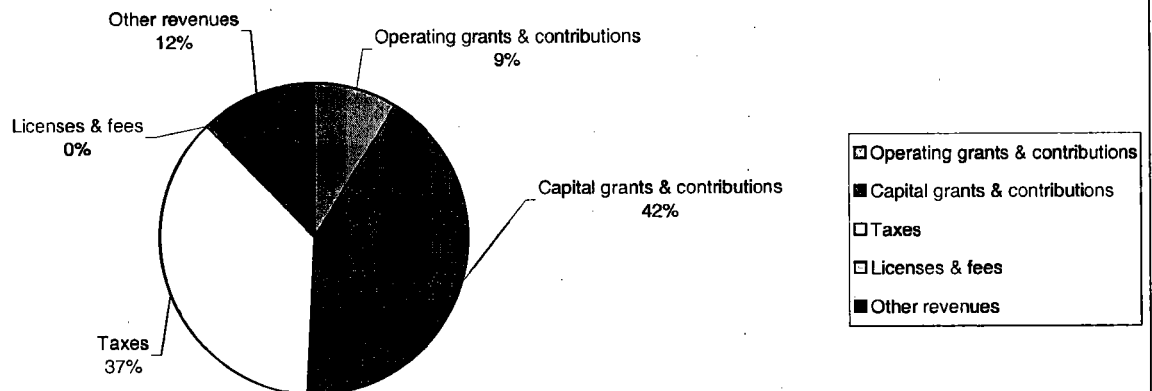
Total resources available at June 30, 2006 to finance governmental operations were \$1,467,779. This amount consists of net assets at July 1, 2005 of \$1,293,340 and an increase to net assets of \$174,439 from fiscal year 2006 activity.

The following graphs compare program expenses to program revenues for this year and provide a breakdown of revenues by source for all governmental activities:

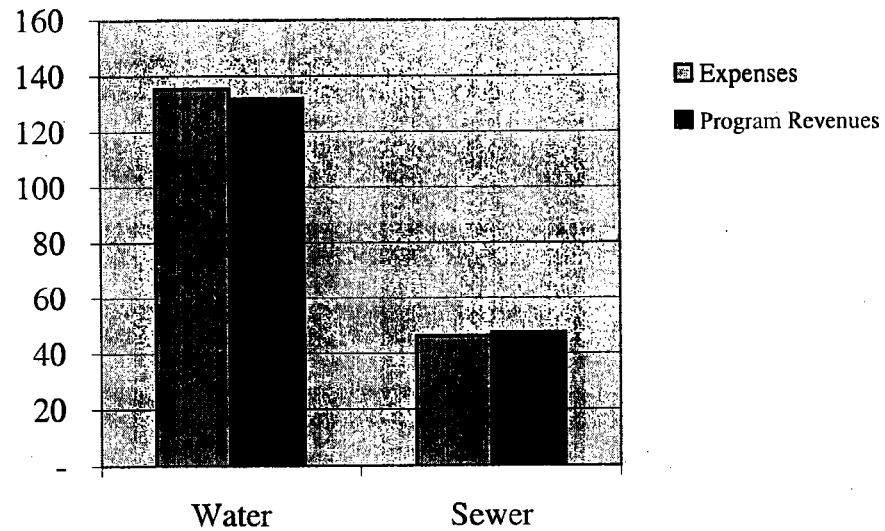
Expenses and Program Revenues - Governmental Activities
(in Thousands)



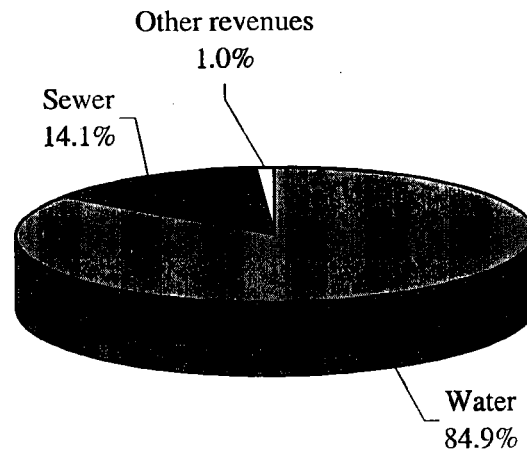
Revenue by Source - Governmental Activities



Expenses and Program Revenues - Business- type Activities
(in Thousands)



Revenue By Source - Business-type Activities



BUDGETARY HIGHLIGHTS

Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Town are those assets that are used in performance of Town functions. Capital assets include land, buildings, improvements, equipment, vehicles, and furniture and fixtures. At the end of fiscal year 2006, the Town's net capital assets totaled \$3,216,166. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 5 to the financial statements).

Debt

At the end of fiscal year 2006, the Town's total government and proprietary-type debt outstanding was \$365,640. During the fiscal year, the Town's total debt decreased by \$47,442. (See note 6 to the financial statements for detailed descriptions).

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

The Town's fiscal year 2007 budget shows a decrease in operating revenues and expenditures.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town, P.O. Box 130, Tropic UT, 84776.

BASIC FINANCIAL STATEMENTS

TOWN OF TROPIC, UTAH
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ -	\$ 221,982	\$ 221,982
Receivables (net of allowance)	6,293	19,573	25,866
Internal balances	(32,399)	32,399	-
Prepays	8,159	-	8,159
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	-	40,085	40,085
Capital assets (net of accumulated depreciation):			
Land	47,000	-	47,000
Water shares	-	46,000	46,000
Machinery & equipment	348,385	44,372	392,757
Improvements other than buildings	422,339	1,614,616	2,036,955
Buildings	222,724	-	222,724
Infrastructure	546,578	-	546,578
Total assets	<u>1,569,079</u>	<u>2,019,027</u>	<u>3,588,106</u>
Liabilities			
Accounts payable	2,864	-	2,864
Accrued liabilities	3,436	-	3,436
Noncurrent liabilities:			
Due within one year	5,000	44,123	49,123
Due in more than one year	90,000	226,517	316,517
Total liabilities	<u>101,300</u>	<u>270,640</u>	<u>371,940</u>
Net Assets			
Invested in capital assets, net of related debt	1,492,026	1,434,347	2,926,373
Restricted for:			
Unspent funds for construction	-	-	-
Debt service	-	40,085	40,085
Unrestricted	(24,247)	273,955	249,708
Total Net Assets	<u>\$ 1,467,779</u>	<u>\$ 1,748,387</u>	<u>\$ 3,216,166</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF TROPIC, UTAH
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities
Governmental activities:						
General government	\$ 74,852	\$ -	\$ -	\$ -	\$ (74,852)	\$ -
Public safety	77,013	-	1,072	51,987	(23,954)	-
Streets and highways	33,669	-	34,911	115,000	116,242	-
Parks and recreation	39,415	-	-	-	(39,415)	-
Total governmental activities	224,949	-	35,983	166,987	(21,979)	-
Business-type activities:						
Water	135,336	130,145	-	146,533	-	141,342
Sewer	46,234	45,811	-	-	-	(423)
Total business-type activities	181,570	175,956	-	146,533	-	140,919
General Revenues:						
Taxes:						
Property taxes					18,646	18,646
Sales and use taxes					62,126	62,126
Resort tax					66,842	66,842
Other taxes					-	-
Licenses, permits, and fees					1,500	1,500
Unrestricted investment earnings					4,096	3,377
Gain on sale of capital assets					-	-
Donation of capital assets					32,605	32,605
Miscellaneous					10,603	10,603
Transfers					-	-
Total general revenues & transfers					196,418	3,377
Change in net assets					174,439	144,296
Net assets - beginning					1,293,340	1,604,091
Net assets - ending					\$ 1,467,779	\$ 1,748,387
						\$ 3,216,166

The accompanying notes are an integral part of the financial statements.

TOWN OF TROPIC, UTAH
Balance Sheet
Governmental Funds
June 30, 2006

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Assets		
Cash and cash equivalents	\$ (32,399)	\$ (32,399)
Cash - designated	-	-
Cash - restricted	-	-
Receivables	-	-
Due from other governments	6,293	6,293
Due from other funds	-	-
Prepaid expenses	8,159	8,159
Inventories	-	-
Total assets	<u><u>\$ (17,947)</u></u>	<u><u>\$ (17,947)</u></u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ 2,864	\$ 2,864
Accrued liabilities	3,436	3,436
Customer deposits	-	-
Due to other funds	-	-
Deferred revenue	-	-
Total liabilities	<u><u>6,300</u></u>	<u><u>6,300</u></u>
Fund Balances:		
Unreserved	(24,247)	(24,247)
Designated	-	-
Reserved for construction	-	-
Total fund balances	<u><u>(24,247)</u></u>	<u><u>(24,247)</u></u>
Total liabilities and fund balances	<u><u>\$ (17,947)</u></u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,587,026
Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.	(95,000)

Net assets of governmental activities	<u><u>\$ 1,467,779</u></u>
---------------------------------------	----------------------------

The accompanying notes are an integral part of the financial statements.

TOWN OF TROPIC, UTAH
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	<u>General</u>	<u>Total Governmental Funds</u>
Revenues		
Property taxes	\$ 18,646	\$ 18,646
Sales and use taxes	62,126	62,126
Resort tax	66,842	66,842
Licenses, permits and fees	1,500	1,500
Intergovernmental revenue	202,970	202,970
Fees in lieu of property taxes	-	-
Interest income	4,096	4,096
Rental income	880	880
Sale of fixed assets	-	-
Miscellaneous revenues	9,723	9,723
	<u>366,783</u>	<u>366,783</u>
Total revenues		
	<u>366,783</u>	<u>366,783</u>
Expenditures		
Current:		
General government	74,078	74,078
Public safety	69,720	69,720
Highways and streets	84,145	84,145
Parks and recreation	34,147	34,147
Capital outlay	254,451	254,451
Debt service - principal	5,000	5,000
Debt service - interest	-	-
	<u>521,541</u>	<u>521,541</u>
Total expenditures		
	<u>521,541</u>	<u>521,541</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(154,758)</u>	<u>(154,758)</u>
Other Financing Sources (Uses)		
Proceeds from sale of bonds/notes	-	-
Transfers in	-	-
Transfers out	-	-
	<u>-</u>	<u>-</u>
Total other financing sources (uses)		
	<u>-</u>	<u>-</u>
Net change in fund balances	(154,758)	(154,758)
Fund balances, beginning of year	130,511	130,511
Fund balances, end of year	<u>\$ (24,247)</u>	<u>\$ (24,247)</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF TROPIC, UTAH
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (154,758)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	291,592
Governmental funds report the gross proceeds from the sale of fixed assets as revenue. However, in the statement of activities, the gain on the sale of capital assets is reported net of its net book value.	-
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	5,000
Donations of capital assets are not recognized as revenues in the governmental funds, but the donations increase net assets in the statement of net assets.	32,605
Governmental funds report new long-term debt as an "other financing source" and do not capitalize the lease. However, in the statements of net assets the liability/lease is recognized as a liability.	-
Change in net assets of governmental activities	<u>\$ 174,439</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF TROPIC, UTAH
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 20,000	\$ 13,814	\$ 18,646	\$ 4,832
Sales and use taxes	55,000	63,000	62,126	(874)
Resort tax	50,000	58,000	66,842	8,842
Licenses, permits and fees	1,200	700	1,500	800
Intergovernmental revenue	301,800	456,334	202,970	(253,364)
Fees in lieu of property taxes	-	-	-	-
Interest income	2,400	2,400	4,096	1,696
Rental income	6,655	1,500	880	(620)
Sale of fixed assets	7,600	51,667	-	(51,667)
Miscellaneous revenues	21,945	28,374	9,723	(18,651)
Total revenues	466,600	675,789	366,783	(309,006)
Expenditures				
Current:				
General government	74,000	74,000	74,078	(78)
Public safety	18,500	148,979	69,720	79,259
Highways and streets	60,000	92,375	84,145	8,230
Parks and recreation	70,000	76,000	34,147	41,853
Capital outlay	244,100	284,435	254,451	29,984
Debt service - principal	-	-	5,000	(5,000)
Debt service - interest	-	-	-	-
Total expenditures	466,600	675,789	521,541	154,248
Excess (deficiency) of revenues over (under) expenditures	-	-	(154,758)	(154,758)
Other Financing Sources (Uses)				
Proceeds from sale of bonds/notes	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	(154,758)	(154,758)
Fund balances, beginning of year	130,511	130,511	130,511	-
Fund balances, end of year	\$ 130,511	\$ 130,511	\$ (24,247)	\$ (154,758)

The accompanying notes are an integral part of the financial statements.

TOWN OF TROPIC, UTAH
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Water Fund	Sewer Fund	Total
Assets			
Current assets:			
Cash	\$ 120,963	\$ 101,019	\$ 221,982
Receivables, net of allowance	15,109	4,464	19,573
Due from other funds	32,399	-	32,399
Total current assets	<u>168,471</u>	<u>105,483</u>	<u>273,954</u>
Noncurrent assets:			
Restricted assets:			
Cash - restricted	40,085	-	40,085
Cash - designated	-	-	-
Capital assets:			
Water shares	46,000	-	46,000
Machinery & equipment	39,423	26,340	65,763
Improvements other than buildings	1,941,457	539,366	2,480,823
Less: Accumulated depreciation	<u>(637,107)</u>	<u>(250,492)</u>	<u>(887,599)</u>
Total capital assets net of accumulated depreciation	<u>1,389,773</u>	<u>315,214</u>	<u>1,704,987</u>
Total noncurrent assets	<u>1,429,858</u>	<u>315,214</u>	<u>1,745,072</u>
Total assets	<u>1,598,329</u>	<u>420,697</u>	<u>2,019,026</u>
Liabilities			
Current liabilities:			
Accounts payable	-	-	-
Accrued liabilities	-	-	-
Customer deposits	-	-	-
Deferred revenue	-	-	-
Interest payable	-	-	-
Current portion of noncurrent liabilities	44,123	-	44,123
Total current liabilities	<u>44,123</u>	<u>-</u>	<u>44,123</u>
Noncurrent liabilities:			
Leases payable	-	-	-
Notes payable	46,489	-	46,489
Bonds payable	224,151	-	224,151
Less current portion of noncurrent liabilities	<u>(44,123)</u>	<u>-</u>	<u>(44,123)</u>
Total noncurrent liabilities	<u>226,517</u>	<u>-</u>	<u>226,517</u>
Total liabilities	<u>270,640</u>	<u>-</u>	<u>270,640</u>
Net Assets			
Invested in capital assets, net of related debt	1,119,133	315,214	1,434,347
Restricted for debt service	40,085	-	40,085
Designated	-	-	-
Unrestricted	168,472	105,483	273,955
Total net assets	<u>\$ 1,327,690</u>	<u>\$ 420,697</u>	<u>\$ 1,748,387</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF TROPIC, UTAH
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Water Fund	Sewer Fund	Total
Operating revenues:			
Charges for services	\$ 120,228	\$ 42,211	\$ 162,439
Total operating revenues	120,228	42,211	162,439
Operating expenses:			
Salaries, wages, & benefits	27,377	13,281	40,658
Repairs & maintenance	28,783	7,901	36,684
Utilities	6,475	1,735	8,210
Contract services	1,294	-	1,294
Insurance	4,345	2,172	6,517
Rent	-	-	-
Miscellaneous	6,209	2,544	8,753
Depreciation	52,988	18,601	71,589
Total operating expenses	127,471	46,234	173,705
Operating income (loss)	(7,243)	(4,023)	(11,266)
Nonoperating revenues (expenses):			
Connection and impact fees	9,917	3,600	13,517
Interest income	1,736	1,641	3,377
Grant revenue	146,533	-	146,533
Gain on sale of fixed assets	-	-	-
Interest expense and fiscal charges	(7,865)	-	(7,865)
Total nonoperating revenues (expenses)	150,321	5,241	155,562
Income before contributions and transfers	143,078	1,218	144,296
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Change in net assets	143,078	1,218	144,296
Total net assets, beginning of year	1,184,612	419,479	1,604,091
Total net assets, end of year	\$ 1,327,690	\$ 420,697	\$ 1,748,387

The accompanying notes are an integral part of the financial statements.

TOWN OF TROPIC, UTAH
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Cash received from customers, service fees	\$ 120,686	\$ 41,568	\$ 162,254
Cash paid to suppliers	(47,106)	(14,352)	(61,458)
Cash paid to employees	(27,377)	(13,281)	(40,658)
Net cash provided by operating activities	<u>46,203</u>	<u>13,935</u>	<u>60,138</u>
Cash flows from noncapital financing activities:			
Transfers (to) from other funds	-	-	-
Loans (to) from other funds	(32,399)	-	(32,399)
Proceeds from state and federal grants	146,533	-	146,533
Net cash provided (used) by noncapital financing activities	<u>114,134</u>	<u>-</u>	<u>114,134</u>
Cash flows from capital and related financing activities:			
Proceeds from sale of fixed assets	-	-	-
Principal payments on capital leases	-	-	-
Loan proceeds	-	-	-
Principal payments on bonds	(42,442)	-	(42,442)
Interest paid	(7,865)	-	(7,865)
Purchase of fixed assets	(146,532)	-	(146,532)
Connection and impact fees	9,917	3,600	13,517
Net cash provided (used) by capital and related financing activities:	<u>(186,922)</u>	<u>3,600</u>	<u>(183,322)</u>
Cash flows from investing activities:			
Interest on investments	1,736	1,641	3,377
Net increase (decrease) in cash and cash equivalents	(24,849)	19,176	(5,673)
Cash and cash equivalents, beginning of year	185,897	81,843	267,740
Cash and cash equivalents, end of year	<u><u>\$ 161,048</u></u>	<u><u>\$ 101,019</u></u>	<u><u>\$ 262,067</u></u>
Reconciliation of operating income to net cash provided by operating activities:			
Net operating income (loss)	\$ (7,243)	\$ (4,023)	\$ (11,266)
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation/amortization	52,988	18,601	\$ 71,589
Changes in operating assets and liabilities:			
(Increase) Decrease in receivables	458	(643)	(185)
(Increase) Decrease in inventory	-	-	-
Increase (Decrease) in accounts payable	-	-	-
Increase (Decrease) in accrued liabilities	-	-	-
Net cash provided by operating activities	<u><u>\$ 46,203</u></u>	<u><u>\$ 13,935</u></u>	<u><u>\$ 60,138</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies

General

The financial statements of the Town of Tropic, Utah have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the governmental-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

Reporting Entity

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the Town.

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies, Continued

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the Town are reported as a reduction of a related liability, rather than as expenditures in the government-wide financial statements.

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies, Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, room taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

The General Fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The Town reports the following major proprietary funds:

The Water Fund is used to account for the provision of water services to the residents of the Town.

The Sewer Fund is used to account for the provision of sewer services to the residents of the Town.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services.

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies, Continued

Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Investments

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. The Town's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, and other investments as allowed by the State of Utah's Money Management Act. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices.

Receivables and Payables

All trade accounts receivable are shown net of an allowance for uncollectibles. The Town's only allowance for doubtful accounts is in the water fund. The allowance amount is \$721. Due to the nature of the accounts receivable in governmental-type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented in the general fund.

Inventories and prepaid items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Also, the Town's inventory of materials and supplies is deemed to be immaterial; thus, no provision for inventory has been made in these financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The Town has elected not to retroactively report its infrastructure capital assets.

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies, Continued

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Improvements	20-40 years
Machinery and equipment	5-10 years

Accrued Benefits and Compensated Absences

Accumulated unpaid vacation and other employee benefit amounts are not accrued as an expenditure at year end. They are considered immaterial.

Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies, Continued

Use of Restricted Assets

When both restricted and unrestricted assets are available for use, it is the Town's policy to use restricted assets first, then unrestricted assets as they are needed; but reserves the right to be selective in the use of such restricted assets that best fit Town needs.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant & equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Town as a whole.

Cost of capital assets	\$ 1,970,156
Accumulated depreciation	(383,130)
Total Difference	<u>\$ 1,587,026</u>

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 2. Reconciliation of Government-Wide and Fund Financial Statements, Continued

Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference of \$232,976 are as follows:

Capital outlay	\$ 365,175
Depreciation expense	<u>(73,583)</u>
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental funds	<u>\$ 291,592</u>

Note 3. Stewardship Compliance and Accountability

Budgets and Budgetary Accounting

The Town Council observes the following procedures in establishing the budgetary data reflected in the financial statements:

- (1) Prior to the first meeting in May, the Town Manager submits to the Town Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- (2) Public hearings are conducted to obtain taxpayer comments.
- (3) Prior to June 22, the budget is legally enacted through passage of an ordinance.
- (4) The Town Manager is authorized to transfer budgeted amounts within departments; however, to transfer budgeted amounts between departments requires Town Council approval. Any revisions that alter the total expenditures of any fund must be approved through public hearing by the Town Council and can be made at any time during the fiscal year.

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 3. Stewardship Compliance and Accountability, Continued

The budget for the General Fund is prepared on the modified accrual method of accounting. Budgets for the Enterprise Funds are prepared on the accrual basis of accounting. Control is maintained at the function level. (i.e. Public Safety, Highways and Public Improvements, etc.) All appropriations lapse at year-end. Utah State law requires budgets to be prepared and reported on for the General Fund, and Major Special Revenue Funds. The General Fund budget was amended during the current fiscal year.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Town.

Property Taxes

Property taxes are collected by the Garfield County Treasurer and remitted to the Town in monthly installments. Taxes are levied and are due and payable on November 1 and delinquent after November 30 of each year at which time they become liens if not paid. An accrual of uncollected current and prior year's property taxes has not been made, as the amounts are not material in relationship to the financial statements taken as a whole.

Sales taxes are collected by the Utah State Tax Commission and remitted to the Town monthly.

Note 4. Deposits and Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Town follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Town funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 4. Deposits and Investments, Continued

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk. As of June 30, 2006, \$174,606 of the Town's bank balance of \$274,606 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the Town and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Town to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses - net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 4. Deposits and Investments, Continued

As of June 30, 2006 the government had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investments' Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
State of Utah Public Treasurer's Investment Fund	\$ -	\$ -	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act.

At June 30, 2006 the Town had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Quality Ratings</u>			
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
State of Utah Public Treasurer's Investment Fund	\$ -	\$ -	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 4. Deposits and Investments, Continued

The Town's cash deposits and investments are summarized as follows:

Carrying amount of demand deposits and petty cash at State Bank Of Southern Utah	\$ 158,408
Certificates of deposit (3-month maturity) at State Bank Of Southern Utah	103,659
State Of Utah Public Tresurer's Investment Fund	-
Total cash and cash equivalents	<u>\$ 262,067</u>

The Town's cash deposits and investments are further summarized and presented in the financial statements at cost as follows:

	<u>Total</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Designated</u>
General Fund	\$ (32,399)	\$ (32,399)	\$ -	\$ -
Water Fund	193,447	153,362	40,085	
Sewer Fund	101,019	101,019		
Totals	<u>\$ 262,067</u>	<u>\$ 221,982</u>	<u>\$ 40,085</u>	<u>\$ -</u>

The restricted cash is classified as such to meet bond requirements in the water fund. The designated cash amounts are set aside to accumulate sums large enough to accomplish various large future projects of the Town.

The general fund of the Town has a cash deficit position of \$32,399 as of June 30, 2006, in the pooled cash of the Town. This cash deficit has been recorded as due to other funds in the individual governmental funds' balance sheet and recorded as due from other funds in the water fund's individual statement of net assets.

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 5. Capital Assets

A summary of changes in fixed assets follows:

Governmental Activities:

	<u>6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2006</u>
Capital assets not being depreciated:				
Land	\$ 47,000	\$ -	\$ -	\$ 47,000
Total capital assets, not being depreciated:	<u>47,000</u>	<u>-</u>	<u>-</u>	<u>47,000</u>
Capital assets being depreciated:				
Buildings	\$ 275,536	\$ -	\$ -	\$ 275,536
Improvements Other Than Buildings	415,920	53,843	-	469,763
Machinery and Equipment	554,078	65,535	-	619,613
Construction in Progress	-	-	-	-
Infrastructure	279,842	278,402	-	558,244
Total capital assets, being depreciated	<u>1,525,376</u>	<u>397,780</u>	<u>-</u>	<u>1,923,156</u>
Less accumulated depreciation for:				
Buildings	\$ (46,273)	\$ (6,539)	\$ -	\$ (52,812)
Improvements Other Than Buildings	(37,830)	(9,594)	-	(47,424)
Machinery and Equipment	(221,333)	(49,895)	-	(271,228)
Construction in Progress	-	-	-	-
Infrastructure	(4,111)	(7,555)	-	(11,666)
Total accumulated depreciation	<u>(309,547)</u>	<u>(73,583)</u>	<u>-</u>	<u>(383,130)</u>
Total capital assets, being depreciated, net	<u>1,215,829</u>	<u>324,197</u>	<u>-</u>	<u>1,540,026</u>
Total capital assets, net	<u>\$ 1,262,829</u>	<u>\$ 324,197</u>	<u>\$ -</u>	<u>\$ 1,587,026</u>

Depreciation expense was charged to the functions/programs of the Town as follows:

General government	\$ 774
Highways & streets	23,760
Parks & recreation	9,876
Public safety	39,173
	<u> </u>
Total depreciation expense	<u>\$ 73,583</u>

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 5. Capital Assets, Continued

Business Type Activities:

	<u>6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2006</u>
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Water Shares	46,000	-	-	46,000
Total capital assets, not being depreciated:	<u>46,000</u>	<u>-</u>	<u>-</u>	<u>46,000</u>
Capital assets being depreciated:				
Machinery and Equipment	65,762	-	-	65,762
Improvements Other Than Buildings	2,334,291	146,533	-	2,480,824
Total capital assets, being depreciated	<u>2,400,053</u>	<u>146,533</u>	<u>-</u>	<u>2,546,586</u>
Less accumulated depreciation for:				
Machinery and Equipment	\$ (8,622)	\$ (12,769)	\$ -	\$ (21,391)
Improvements Other Than Buildings	(807,387)	(58,820)	-	(866,207)
Total accumulated depreciation	<u>(816,009)</u>	<u>(71,589)</u>	<u>-</u>	<u>(887,598)</u>
Total capital assets, being depreciated, net	<u>1,584,044</u>	<u>74,944</u>	<u>-</u>	<u>1,658,988</u>
Total capital assets, net	<u>\$ 1,630,044</u>	<u>\$ 74,944</u>	<u>\$ -</u>	<u>\$ 1,704,988</u>

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 6. Long-Term Debt

The following is a summary of long-term debt for the year ended June 30, 2006:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General Obligation 1978 - Water Bonds	\$ 9,220	\$ 2,602	\$ 11,822
Revenue Obligation 1978 - Water Bonds	64,930	21,856	86,786
Revenue Obligation 1991 - Water Bonds	150,000	-	150,000
Note Payable - Community Impact Board	95,000	-	95,000
Note Payable - State Bank of Southern Utah	31,595	5,608	37,203
Note Payable - State Bank of Southern Utah	14,894	1,293	16,187
Total Long-Term Debt	<u>\$ 365,639</u>	<u>\$ 31,359</u>	<u>\$ 396,998</u>

The following is a summary of changes in long-term debt for the year ended June 30, 2006:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2006</u>	<u>Current Portion</u>
General Obligation 1978 - Water Bonds	\$ 9,752	\$ -	\$ 532	\$ 9,220	\$ 715
Revenue Obligation 1978 - Water Bonds	67,900	-	2,970	64,930	4,064
Revenue Obligation 1991 - Water Bonds	175,000	-	25,000	150,000	25,000
Note Payable - Community Impact Board	100,000	-	5,000	95,000	5,000
Note Payable - State Bank of Southern Utah	21,830	-	6,936	14,894	7,261
Note Payable - State Bank of Southern Utah	38,600	-	7,005	31,595	7,083
Note Payable - State Bank of Southern Utah	-	-	-	-	-
	<u>\$ 413,082</u>	<u>\$ -</u>	<u>\$ 47,443</u>	<u>\$ 365,639</u>	<u>\$ 49,123</u>

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 6. Long-Term Debt, Continued

Notes Payable

Note payable to State Bank of Southern Utah, bearing interest at 8.00% annually, principal and interest due monthly, secured by a backhoe. \$ 14,894

Note payable to State Bank of Southern Utah, bearing interest At 8% annually, principal and interest due monthly, secured by water shares. 31,595

Note payable to Utah State Division of Finance, due in annual Principal installments of \$5,000, zero percent interest, maturing in 2025. 95,000

General Obligation Debt - Enterprise Funds

General Obligation Water Bonds, Series 1978, payable to G.E. Capital Corp., due in monthly principal and interest installments of \$97.00 bearing interest of 5.00% payable monthly, maturing June 30, 2018. 9,220

Revenue Bonds - Enterprise Funds

Water Revenue Bonds, Series 1978, payable to G.E. Capital Corp., due in monthly principal and interest installments of \$604, bearing interest at 5.00%, maturing June 15, 2018. The bond covenants require a total reserve for retirement of indebtedness of \$15,085. 64,930

Water Revenue Bonds, Series 1991, payable to Utah State Division of Finance, due in annual principal installments ranging from \$17,000 - \$25,000, zero percent interest, maturing January 1, 2012. The bond covenants require a \$208.33 monthly reserve deposit to arrive at a maximum principal reserve of \$25,000, beginning July 1, 1991. 150,000

Total Long-Term Debt \$ 365,639

TOWN OF TROPIC, UTAH
Notes to the Financial Statements
June 30, 2006

Note 6. Long-Term Debt, Continued

The annual requirements to amortize long-term debt outstanding at June 30, 2006, are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 49,123	\$ 6,890	\$ 56,013
2008	50,327	5,455	55,782
2009	42,870	4,251	47,121
2010	44,801	3,321	48,122
2011	35,835	2,577	38,412
2012	36,132	2,280	38,412
2013	11,446	1,966	13,412
2014	11,776	1,636	13,412
2015	12,123	1,289	13,412
2016	12,487	925	13,412
2017	11,875	555	12,430
2018	11,844	214	12,058
2019	5,000	-	5,000
2020	5,000	-	5,000
2021	5,000	-	5,000
2022	5,000	-	5,000
2023	5,000	-	5,000
2024	5,000	-	5,000
2025	5,000	-	5,000
Totals	<u>\$ 365,639</u>	<u>\$ 31,359</u>	<u>\$ 396,998</u>

Note 7. Risk Management

The Town maintains insurance for liability, auto liability, worker's compensation and employee dishonesty through Utah Local Government's Insurance Trust.

FEDERAL AND STATE AUDITORS' REPORTS

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HINTON BURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and other matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Honorable Mayor and
Members of the Town Council
Tropic, Utah

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
MORRIS J. PEACOCK
PHILLIP S. PEINE
MICHAEL K. SPILKER
MARK E. TICHENOR

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Tropic Town, Utah, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tropic Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tropic Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted several immaterial instances of noncompliance, which we have reported to the management of Tropic Town in the accompanying Findings and Recommendations letter dated December 29, 2006.

This report is intended solely for the information and use of the mayor, management, audit committee, and various state and local agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER PLLC
December 29, 2006



HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

**Independent Auditors' Report on Compliance with
State Laws and Regulations Based on an Audit
of the Basic Financial Statements Performed in
Accordance with *Government Auditing Standards***

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
MORRIS J. PEACOCK
PHILLIP S. PEINE
MICHAEL K. SPILKER
MARK E. TICHENOR

The Honorable Mayor and
Members of the Town Council
Tropic, Utah

We have audited the basic financial statements of Tropic Town, for the year ended June 30, 2006, and have issued our report thereon dated December 29, 2006. As part of our audit, we have audited the Town of Tropic's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The Town received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)
Public Infrastructure Improvements (Community Impact Board)

Our audit also included test work on the Town's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Other General Compliance Requirements
Department of Commerce
Impact Fees and Other Development Fees
Asset Forfeiture

The management of Tropic Town is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed several immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Findings and Recommendations letter dated December 29, 2006. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph

In our opinion, Tropic Town, Utah complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, PLLC
December 29, 2006



Findings and Recommendations

The Honorable Mayor and
Town Council
Tropic, Utah

During our audit of the funds of Tropic for fiscal year 2006, we noted a few items needing corrective action in order for the Town to be in compliance with State laws and regulations. These items are discussed below for your consideration:

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
BRENT R. HALL
KENNETH A. HINTON
MORRIS J. PEACOCK
PHILLIP S. PEINE
MICHAEL K. SPILKER
MARK E. TICHENOR

State Compliance Findings and Recommendations:

1. Finding – Budgetary Compliance – Exceeding Budget Appropriations

The Fiscal Procedures Act for Utah Cities requires that expenditures be restricted to the authorized department budget for the General Fund. We noted that the General Fund had over-expended departmental budgets.

Recommendation

We recommend the Town operate within the confines of State law by limiting expenditures or following proper procedures to adjust the department budgets.

2. Finding—General Fund Balance Deficit

The general fund balance was in a deficit position at June 30, 2006. The Utah State Auditor's office has taken the position that any deficit fund balance is in violation of State law.

Recommendation

We recommend that the Town budget this year's general fund revenues and expenditures so as to raise the fund balance into the required positive position.

3. Finding—Budgeted Property Tax Revenue

State Law requires that the Town's budgeted property tax revenues equal the amount shown on the Report 693, *Tax Rate Summary*, in the "Budgeted Revenue" column. The Town's budget for property tax does not equal the amount shown on the Report 693.

Recommendation

We suggest that the Town ensure that the budgeted property tax revenues equal the amount shown on the Report 693, *Tax Rate Summary*, each year.

General Findings and Recommendations:

None

This letter is intended solely for the use of the Town Council and management.

It has been a pleasure to be of service to the Town during this past year. We would like to express special thanks to Gwen Brinkerhoff and Gaia Greenhalgh, who assisted us so cheerfully during the audit. We invite you to ask questions of us throughout the year as you feel it necessary. We look forward to a continued pleasant professional relationship.

Sincerely,

Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, PLLC
December 29, 2006

January 8, 2007

Mr. MacRay A. Curtis, CPA
Director, Local Government Division
PO Box 142310
Salt lake City, UT 84114-2310

Dear Mr. Curtis:

During the recent audit for the funds of Tropic Town, we were notified of three findings in which we are not in compliance with the State of Utah laws and regulations.

1. Budgetary Compliance – Exceeding Budget Appropriations.
2. General Fund Balance Deficit
3. Budgeted Property Tax Revenue

During this fiscal year we were in the process of a main street improvement. Because of unforeseeable problems we did exceed our budget. The streetlights were delayed in shipping because of the Katrina problem in Florida. This put the project behind and we were fined. Also, UDOT exceeded their budget, which put their financial responsibility onto the Town of Tropic.

As for the budgeted amount of property tax revenue, we made a mistake. Actually we budgeted \$300.00 less than the amount on the 693 report.

The Tropic Town Mayor and Council have discussed the areas in which we did not comply. We are taking the necessary actions to insure our compliance for the future.

Thank you,

Lowell J. Mecham
Mayor

Town Of Tropic, Utah
Supplementary Information
Schedule of Water Impact Fees
Fiscal Year Ending June 30, 2006

<u>Date Received</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Accumulated Balance</u>	<u>Name</u>
10/31/2005	\$1,000.00		\$1,000.00	Irene Emett
1/31/2006	\$1,000.00		\$2,000.00	Lance Syrett
3/31/2006	\$1,000.00		\$3,000.00	Jim Walstead
3/31/2006	\$1,000.00		\$4,000.00	Chad Grimshaw

The Town of Tropic is in the process of installing a filtration system on our water well. The impact fees collected thus far have not been used but will be used within the next year on this specified project.

Fees spent on this project will be approved by the Tropic Town Council.

TROPIC TOWN
PO BOX 131
Tropic, Ut 84776

April 27, 2007

Mr. MacRay A. Curtis, CPA
Director, Local Government Division
PO Box 142310
Salt Lake City, UT 84114-2310

Dear Mr. Curtis:

In reply to your letter of March 7, 2007, we do understand our failure to comply with the State of Utah laws and regulations.

We are in the process of preparing our new budget for 2007-2008 and are taking the necessary steps to assure our compliance for the next fiscal year.

According to our auditor we are at present in compliance with section 10-5-115 of the *Utah Code*.

Our corrective action plan is in process, which is to stay within the budget amounts.

Thank you,

A handwritten signature in cursive script that reads "Lowell J. Mecham".

Lowell J. Mecham
Mayor

January 8, 2007

Mr. MacRay A. Curtis, CPA
Director, Local Government Division
PO Box 142310
Salt lake City, UT 84114-2310

Dear Mr. Curtis:

During the recent audit for the funds of Tropic Town, we were notified of three findings in which we are not in compliance with the State of Utah laws and regulations.

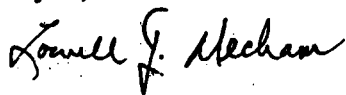
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Thank you,



Lowell J. Mecham
Mayor